



Grocery Store Economics

Posted by [Pierluigi Oliverio](#) on Monday, September 10, 2007

City Hall Diary

Grocery stores are an important element of our neighborhoods. They remind me of libraries and parks: a place that is usually open and serves everyone. Some of my fondest memories of childhood include grocery stores—whether it was cooling down on a hot day in the freezer section or spending my paper route money on snacks. Of course, those were the days when one dollar could get a kid four candy bars (which led to my 38-inch waist in elementary school!).

Unfortunately, it appears that many of the neighborhoods in San Jose are having problems getting grocery stores to locate within their environs. From Willow Glen to Berryessa, from Sherman Oaks to downtown, residents have few or no choices. A trend that I am fearful of is that grocery stores are often replaced by drug or discount stores that do not have a produce section or meat department that shoppers tend to depend on.

The grocery industry is being challenged on a macroeconomic level and stores are closing all over the United States. Just last week, Lunardi's in Evergreen closed its doors, leaving the community at a loss. In the case of Lunardi's, unlike Safeway, they are a small regional player, but they still must operate under the same challenging business model. Grocery stores have low single-digit profits overall as they are distributors of products grown or manufactured by someone else. Margins are low in the distribution business, plus there are all of the other usual business costs like rent, utilities (24/7 freezers for example), labor and growing medical costs, etc. Higher margins exist on alcohol and value added services like a deli or bakery. Such value added services allow a grocery store like Zanotto's to stay open.

As we know, former "grocery giants" like Alpha Beta, Albertsons, Lucky's etc. have fallen to the new "big box" stores like Costco and Wal-Mart—with their discount prices and sophisticated supply chains—or to "specialty" stores like Trader Joe's and Whole Foods, with their unique products. Therefore, traditional grocers are being squeezed by both ends of the market with little room to move.

When I was a child, my parents would shop at the local grocery store. 90 percent of the family food budget was spent at a traditional grocery store. My parents did not have the many choices that we have today. However, now my father, a retired teacher, shops all over. He may visit Whole Foods, Safeway, Trader Joe's, Mi Rancho and, of course, La Villa within just one week. Nowadays, the family food budget is split among various retail choices, thus compounding the problem of the traditional grocery store.

This leads me to ask: What can we do to promote our local grocery stores so that they stay open? How do we locate them in our neighborhoods? Certainly cities can control zoning and the permit process. Here in San Jose, we have used Redevelopment monies for Trader Joe's at the Market Center, Whole Foods on The Alameda and Zanutto's downtown.

One thing we all can do today is support our local grocery stores and shop in San Jose.

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